

**MINUTES OF THE REGULAR MEETING OF THE  
ARIZONA STATE RETIREMENT SYSTEM BOARD**

**HELD ON  
Friday, May 19, 2000  
9:00 A.M., M.S.T.**

The Arizona State Retirement System (ASRS) Board met in the 10<sup>th</sup> Floor Board Room of the ASRS office at 3300 North Central Avenue, Phoenix, Arizona 85012. Mr. Jim Jenkins, Chairman, Arizona State Retirement System Board called the meeting to order at 9:02 A.M., MST.

The meeting was teleconferenced to the ASRS office, 7660 East Broadway Boulevard, Suite 108, Tucson, Arizona 85710.

**1. Call to Order; Roll Call.**

Present: Mr. James Jenkins, Chairman  
Dr. Chuck Essigs, Vice Chairman  
Mr. Karl Polen  
Dr. Merlin DuVal  
Ms. Bonnie Gonzalez  
Mr. Alan Maguire (arrived at 9:03 a.m.)  
Mr. Norman Miller (arrived at 9:03 a.m.)  
Mr. Ray Rottas

Excused: Mr. Jim Bruner

A quorum was present for the purpose of conducting business.

**2. Approval of Minutes of the April 21, 2000 Regular Meeting of the Arizona State Retirement System Board and the Minutes of the April 21, 2000 Executive Session.**

**Motion:** Dr. Merlin DuVal moved to approve the minutes of the April 21, 2000 regular meeting of the ASRS Board and the minutes of the April 21, 2000 executive session.

Mr. Ray Rottas seconded the motion.

By a vote of 8 in favor, 0 opposed, 0 abstentions, 1 excused, the motion was approved.

### 3. Board Approval of Consent Schedule.

**Motion:** Dr. Merlin DuVal moved that the ASRS Board approve the summary report of retirements, refunds, and death benefits; system transfers; applications and agreements between employers and the Arizona State Retirement System; and approval of the request for quotation for the real estate consultant services.

Mr. Ray Rottas seconded the motion.

By a vote of 8 in favor, 0 opposed, 0 abstentions, 1 excused, the motion was approved.

### 4. Presentation, Discussion and Appropriate Action Regarding the Total Fund Performance for the Period Ending March 31, 2000.

Mr. Terry Dennison, Principal, Mercer Investment Consulting presented the ASRS Total Fund Performance for the period ending March 31, 2000.

#### *Total Fund Performance for Periods Ending March 31, 2000*

	<b>Qtr</b>	<b>1 Year</b>	<b>3 Years</b>	<b>5 Years</b>	<b>10 Years</b>
<b>Total ASRS Fund</b>	3.0	17.5	21.0	19.1	15.0
<b>Benchmark*</b>	2.0	13.4	18.5	17.3	13.8
<b>TUCS Public Fund Median</b>	2.5	16.5	17.0	16.3	13.3

\*1/1/89-12/31/91 is 60% S&P 500/40% LB Aggregate.

1/1/92-12/31/94 is 50% S&P 500/40% LB Aggregate/10% EAFE,

1/1/95-6/30/97 is 45% S&P 500/40% LB Aggregate/15% EAFE, and

7/1/97-Present is 50% S&P 500/35% LB Aggregate/15% EAFE.

#### *Performance vs. Benchmarks for the 3 Years Ending March 31, 2000*

	<b>Port ROR</b>	<b>Bmk ROR</b>	<b>Assumed ROR</b>	<b>Port SD</b>	<b>Bmk SD</b>	<b>Assumed SD</b>
<b>Total ASRS Fund</b>	21.0	18.3	9.3	12.8	11.5	10.2
<b>Domestic Equity</b>	27.4	27.4	10.2	19.1	18.5	16.2
<b>Domestic Fixed</b>	6.7	6.7	7.0	3.8	3.5	7.0
<b>International Equity</b>	16.6	16.6	10.6	22.2	20.6	19.7

#### *Performance vs. Benchmarks for the 5 Years Ending March 31, 2000*

	<b>Port ROR</b>	<b>Bmk ROR</b>	<b>Assumed ROR</b>	<b>Port SD</b>	<b>Bmk SD</b>	<b>Assumed SD</b>
<b>Total ASRS Fund</b>	19.1	17.2	9.3	10.2	9.2	10.2
<b>Domestic Equity</b>	26.0	26.8	10.2	14.9	14.4	16.2
<b>Domestic Fixed</b>	7.6	7.2	7.0	5.1	4.1	7.0
<b>International Equity</b>	15.3	12.7	10.6	17.6	16.1	19.7

## 5. Presentation, Discussion and Appropriate Action Regarding the Performance of Domestic Large Cap Equity Managers for the Period Ending March 31, 2000.

Mr. Terry Dennison, Principal, Mercer Investment Consulting, Inc., reported on the investment manager's performance for the Arizona State Retirement System (E1), the Arizona State Retirement System (E2), BGI Barclays Global Investors, JP Morgan Investment Management, Inc., and Mellon Equity for the period ending March 31, 1999.

Mr. Paul Matson, Chief Investment Officer reported on the Arizona State Retirement System's (E1) performance for the period ending March 31, 2000.

	<b>Qtr Ending 3/31/00</b>	<b>1 Year</b>	<b>Inception*</b>
<b>S&amp;P 500</b>	2.3%	17.9%	25.4%
<b>E1</b>	1.7%	17.0%	24.9%
<b>Value Added over Benchmark</b>	-0.6%	-0.9%	-0.5%

\*From 9/30/95

Mr. Paul Matson, Chief Investment Officer reported on the Arizona State Retirement System's (E2) performance for the period ending March 31, 2000.

	<b>Qtr Ending 3/31/00</b>	<b>1 Year</b>	<b>Inception*</b>
<b>S&amp;P 500</b>	2.3%	17.9%	27.4%
<b>E2</b>	2.5%	18.2%	27.6%
<b>Value Added over Benchmark</b>	0.2%	0.3%	0.2%

\*From 4/1997

Mr. Peter Landin, Managing Director reported on BGI Barclays Global Investors' performance for the period ending March 31, 2000.

<b>Equity Index Fund</b>	<b>Quarter</b>	<b>1 Year</b>	<b>3 Years</b>	<b>5 Years</b>	<b>Inception*</b>
<b>Sector Selection</b>	0.00	0.00	0.00	0.00	0.00
<b>Stock Selection</b>	0.00	0.00	0.00	0.00	0.00
<b>Securities Lending**</b>	0.00	0.01	0.01	0.01	0.01
<b>Other</b>	(0.05)	(0.07)	0.01	0.02	0.01
<b>Fees (% annual)***</b>	0.00	(0.01)	(0.01)	(0.01)	(0.01)
<b>Value Added vs. Benchmark</b>	<b>(0.05)</b>	<b>(0.07)</b>	<b>0.01</b>	<b>0.02</b>	<b>0.01</b>

\*ASRS Inception: 07/31/1989

\*\*Securities Lending estimates without rounding adjustment: 0.005% per year

\*\*\*Annual Fees without rounding adjustment: 0.005% per year

Mr. Henry Cavanna, Managing Director, Equity Investments and Mr. Garrett Walls, Vice-President reported on JP Morgan Investment Management, Inc.'s performance for the period ending March 31, 2000.

	<b>Latest Quarter*</b>	<b>1 Year</b>	<b>3 Years</b>	<b>5 Years</b>	<b>Since Inception</b>
<b>Sector Selection</b>	(0.2)	(1.7)	(1.7)	(1.2)	(0.2)
<b>Stock Selection**</b>	3.0	0.5	1.3	0.5	1.8
<b>Other***</b>	0.0	0.3	(1.0)	(0.8)	(0.4)
<b>Fees</b>	0.0	(0.1)	(0.1)	(0.1)	(0.1)
<b>Total Value Added Relative to S&amp;P 500</b>	<b>2.8</b>	<b>(1.0)</b>	<b>(1.5)</b>	<b>(1.6)</b>	<b>1.1</b>

\*Not annualized

\*\*Includes interaction

\*\*\*Includes intra-period trading and cash impact

Mr. John O'Toole, Senior Vice President and Senior Portfolio Manager, Mr. Matthew Cunningham, Vice-President, and Mr. John Dagenhard, Senior Vice-President, reported on Mellon Equity's performance for the period ending March 31, 2000.

	<b>Quarter 1 2000</b>	<b>1 Year 3/31/99-3/31/00</b>	<b>I-t-d 7/1/98-3/31/00</b>
<b>Sector Selection</b>	0.9	1.7	0.3
<b>Stock Selection</b>	(4.4)	(5.0)	(1.2)
<b>Other</b>	0.0	(1.1)	(1.8)
<b>Fees</b>	0.0	(0.1)	(0.1)
<b>Total Value Added Relative to Benchmark</b>	<b>(3.5)</b>	<b>(4.5)</b>	<b>(2.8)</b>

All performance is net of fees.

## 6. Presentation, Discussion, and Appropriate Action Regarding the Recommendation by the Investment Review Board Committee with Respect to the Callan Associates Internal and External Investment Study.

Mr. Karl Polen, Chairman, Investment Review Board Committee (IRBC), gave an overview of the last meeting of the IRBC. He explained that a policy has never been adopted on the issue of internal and external management. Callan Associates gave the IRBC a report on issues related to the ASRS internal management program. Mr. Polen summarized some of the key conclusions of the report given by Callan, they are as follows:

- The portfolios that the ASRS is managing are well designed and appropriate for internal management. The entire process is well documented with excellent internal controls.
- The ASRS has highly competent personnel with a good performance.
- The overall cost of the program is about one basis point. Callan believes that the ASRS staff is too small, and at least one person should be added, particularly with fixed income expertise.

Mr. Polen explained that he does support the internal program because it allows the ASRS to employ highly competent investment personnel, who will not only manage the internal portfolio well, but will also monitor the external managers. Mr. Polen explained that though there is no cost savings, the cost of one basis point cannot be improved by outsourcing the service. He felt it was worth mentioning that though the internal controls are excellent, they are never foolproof. In conclusion, Mr. Polen explained that he felt the ASRS investment staff should be increased and that the internal equity portfolios are too large so a percentage of U.S. equity investments.

**Motion:** Mr. Karl Polen moved that the ASRS internally managed and externally managed investments be reconfigured such that the internally managed equity and fixed income allocations match the overall ASRS fund allocations between equities and fixed income, that this be implemented with the internal investment allocation not to exceed 33% of total ASRS fund market value as measured on the final day after implementation, and that alternative methods of implementation be presented by ASRS staff to the ASRS Board during a future Board meeting.

Mr. Polen clarified the motion to note that the current allocation is 30% and that the limit of 33% is intended to provide for a margin of error. He is not intending nor would support an immediate funding of 33%.

Mr. Ray Rottas seconded the motion.

Mr. Alan Maguire commented that he was very disappointed in the Callan report. He feels that in making this decision the Board must consider the following points:

- Risk; organizational risk in particular.
- Information about comparable systems and their experience.

Mr. Maguire explained that this is a decision not about internal vs. external, but a decision about how much money should be put with any single organization. He expressed his decision was not about professionalism or competency, but that the issue is really how much money should be put into one place.

Mr. Norman Miller expressed that he has the same concerns as Mr. Maguire, but is comfortable going forward with the original motion as stated by Mr. Karl Polen.

By a vote of 8 in favor, 0 opposed, 0 abstentions, 1 excused, the motion was approved.

**Dr. Merlin DuVal was excused at 11:26 a.m.**

## **7. Presentation, Discussion, and Appropriate Action Regarding the Election of 2000/2001 Board Officers.**

Mr. Jim Jenkins explained that the officers of the Board serve terms running from July 1<sup>st</sup> through June 30<sup>th</sup> of the following year.

**Motion:** Mr. Karl Polen moved to nominate Dr. Chuck Essigs for Chairman of the ASRS Board, for the term July 1, 2000 through June 30, 2001.

Mr. Ray Rottas seconded the motion.

By a vote of 7 in favor, 0 opposed, 0 abstentions, 2 excused, the motion was approved.

**Motion:** Mr. Alan Maguire moved to nominate Mr. Jim Bruner for Vice-Chairman of the ASRS Board for the term July 1, 2000 through June 30, 2001.

Mr. Ray Rottas seconded the motion.

By a vote of 7 in favor, 0 opposed, 0 abstentions, 2 excused, the motion was approved.

**Mr. Ray Rottas was excused at 11:32 a.m.**

## **8. Director's Report**

Mr. LeRoy Gilbertson, Director, reported that the ASRS is entering into its busy season. The months of June and July typically have a high number of retirees due to the end of the school year. Because of this, the ASRS will have a large number of benefit estimates, requests, and a higher volume of phone calls.

**Mr. Alan Maguire was excused at 11:41 a.m.**

## **9. Board Requests for Agenda Items.**

There were no requests for agenda items.

## **10. Call to the Public.**

Mr. Jim Seamans of the Phoenix public addressed the Board with regard to the stock market and credit debt. He expressed his belief that the conservative position of the Board should be to invest in Treasury Bills. Mr. Seamans explained that his belief that the contribution from the current employees is too small a percentage of their pay. He believes it should be returned to 7% and that would make the overall running of the ASRS more comfortable and conservative.

Mr. Polen commented that if the Board were to adopt that policy, it would eliminate, in the very near future, the prospect of paying a COLA.

There were no requests to speak from the Tucson public.

**11. The next ASRS Board meeting is scheduled for Thursday, June 15, 2000 at 9:00 a.m. in the Conference Room of the Little America Hotel, located at 2515 East Butler Avenue, Flagstaff, Arizona, 86004.**

**12. Adjournment of the ASRS Board.**

Mr. Jim Jenkins, Chairman adjourned the May 19, 2000 meeting of the ASRS Board at 11:55 a.m.

Respectfully submitted,

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Stephanie Marries, Secretary

Date

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LeRoy Gilbertson, Director

Date